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CIA/OER/IM 71-TI SOVIET AID TO THE ARAB REP.

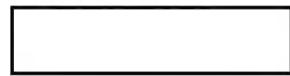
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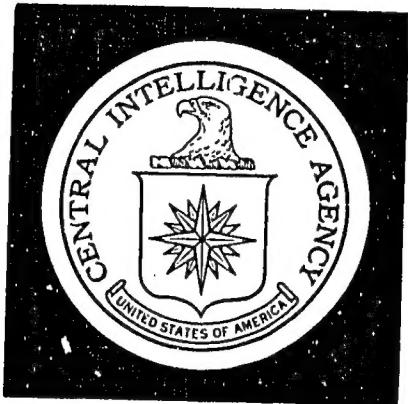
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Soviet Aid To The United Arab Republic:
Cairo's Deepening Dependence*

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
January 1971

INTELLIGENCE MEMORANDUM

Soviet Aid To The United Arab Republic:
Cairo's Deepening Dependence

Introduction

Nasser, prompted by the demoralizing effect of Israeli deep penetration raids into the United Arab Republic (UAR) on the Egyptian population, visited Moscow in January and July 1970 to enlist more effective Soviet support. The USSR agreed (1) to a massive increase in arms deliveries to provide more modern and more versatile air defense, and (2) to the use of large numbers of Soviet military personnel to man these weapons systems, at least until UAR personnel could be trained for their replacement. The result was the shipment of the more advanced SAM-3 system and additional SAM-2 battalions, and the arrival of Soviet aircraft pilots and personnel to operate the missile systems.

The delivery of arms not previously provided outside the Communist countries and the use of Soviet combat forces in the UAR marked a sharp departure from past Soviet military aid policy and represented a Soviet commitment not made elsewhere in the Third World. These large arms deliveries have increased Cairo's previously unmanageable debt to the USSR by about one-third. The recent discussions between Ali Sabri, the Egyptian Vice President, and Premier Kosygin reportedly generated Soviet promises of still more military support and a continued expansion of economic relations.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within CIA.

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Military Assistance

- 1 1. The Soviet Union agreed during Nasser's two visits to Moscow in 1970 to provide Cairo with arms [redacted]

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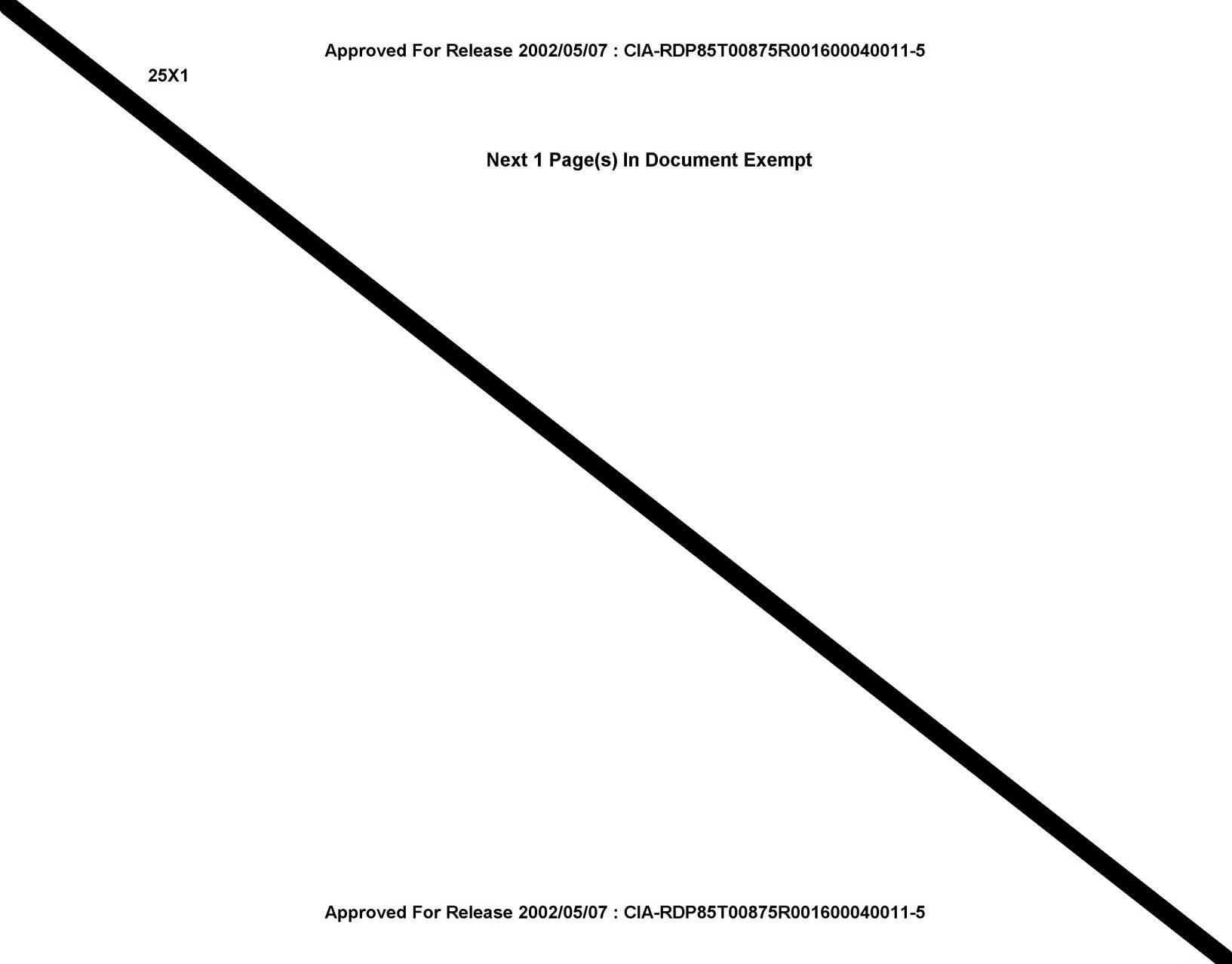
[redacted] This was the largest annual Soviet commitment of arms ever given to a Third World country. These agreements brought Moscow's total military aid extensions to the UAR since 1957 to more than \$2.1 billion*; almost \$1 billion of this post-dates the 1967 war. More than 95% of this aid has been delivered. About half of these deliveries have taken place since the June 1967 war, as Moscow rapidly replaced Egyptian losses and subsequently undertook a major expansion of the UAR's air defense system.

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* An additional \$325 million has been provided by Czechoslovakia, largely during 1955-56 when that country performed the role of Moscow's intermediary in the early arms sales to Egypt.

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part to staff several Soviet interceptor squadrons apparently assigned operational roles in the UAR's air defense.

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4. There also has been a substantial influx of Soviet military technicians into the UAR since mid-1967. Many of them arrived to assemble the newly delivered equipment and to train Egyptians in its use and maintenance. Additional sizable groups were brought in as advisors and instructors to correct operational deficiencies exposed by the June 1967 conflict and to train Egyptians to operate their newly acquired air defense system. Such Soviet personnel have permeated the UAR's military establishment to an extent not previously experienced in the Soviet program.

5. From 750 technicians employed at the end of 1966, the number rose to 2,000 in 1967, 3,000 in 1969, and rocketed to about 6,500 in 1970. (In addition, about 7,000 personnel were brought in during 1970 to provide the operational manning for the new SAM sites and to pilot MIG aircraft as part of the concerted effort to strengthen the air defense network.) These technicians have cost the UAR an estimated \$100 million during the past four years, probably on current account since Moscow rarely extends credit to cover the cost of the service of its personnel under its military aid programs.

6. Although several hundred Egyptian personnel have been undergoing training on the SA-3 system since early in 1970, it will be some time before they can operate the equipment effectively. Some Egyptian SA-3 crews have finished their initial training and have been involved directly in SA-3 operations. Egyptian personnel eventually will take control of these operations, but few of them have reached this level of proficiency. Even after the required number of Egyptians have been trained, however, it is expected that Soviet advisors still will be required if the system is to operate at its designed level of effectiveness.

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Growing Economic Dependence

7. The cumulative effect of years of large military expenditures and deteriorating relations with the West has been to increase Cairo's economic dependence on the USSR. The appearance of a severe shortage of hard currency predated the 1967 war; in 1965 and 1966 the UAR was unable to meet its debt service obligations, and Western credits dried up. But political relations with the West, which had already deteriorated before the war, resulting in the cessation of aid from the United States, have become much more embittered since the war. Even though Cairo has renegotiated all of its outstanding debt commitments, except those with the United States, it has little chance of obtaining substantial Western credits, except supplier credits and some short-term banking credits.

8. The USSR, however, has not been liberal with its support of the Egyptian economy, except for postponing payments on military debt.* Payments on this debt which had reached \$45 million annually by 1964, were rescheduled twice and perhaps as little as \$225 million had been repaid on the principal through the year 1966 (see Table 2). In 1965, scheduled payments for 1965-67 were cut in half and the balance deferred until 1971. In 1967, all principal payments scheduled for 1967-70 were deferred until 1971. During Sabri's December 1970 visit to Moscow, payment obligation (estimated at a minimum of \$85 million for 1971) were postponed for three more years.** Only the interest portion

*See ER IM 70-105, Soviet-Egyptian Financial Relations, August 1970, SECRET

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**The credit portion of Soviet arms agreements during 1957-69 is estimated at about \$600 million. The balance of \$900 million represents grants or discounts. The terms of the 1970 agreements are not known, but on the basis of previous UAR-USSR agreements it is assumed that approximately one-half of the \$650 million extended in 1970 will have to be repaid. These figures are approximations because precise terms of military aid agreements are not known.

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Table 2

Soviet Aid to the C.R.
Extensions, Drawings, and Repayments

	1957-70	1957-61	1962-65	1966	1967	1968	1969	1970	Million US \$
<u>Military assistance</u>									
Extensions	2,135	635	525	--	175	100	50	650	
Drawings	2,045	490	455	100	170	100	90	640	
Repayments a/	261	55	160	25	3	5	6	7	
<u>Economic assistance</u>									
Extensions	1,010	509	501	--	--	--	--	--	
Drawings	670	59	264	82	90	84	46	45	
Repayments a/	228	6	43	21	21	32	40	65	

a. Principal and interest.

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of the debt has been paid since 1966, an outlay estimated at about \$3 million in 1967 and rising only to \$7 million in 1970. Thus the military debt has not yet become a significant financial burden. It does, however, represent a potential threat to Egyptian financial viability and has been one of the obstacles to the availability of Western credit.

9. Current relief to the Egyptian economy for its heavy military and war-related costs -- which amount to around 20% of GNP (excluding Soviet deliveries) -- has come solely from other Arab states, especially Libya. The USSR has done little more than continue deliveries of machinery on credit, mainly for projects planned years ago.

10. Repayments on the UAR's economic debt are not believed to have been rescheduled, even though such payments have jumped sharply in recent years (see Table 2). Repayments in 1970 on economic assistance are estimated to have substantially exceeded new drawings on Soviet aid credits, thus resulting in a large net capital outflow to the USSR on the economic account.

Conclusions

11. Cairo's dependence on Moscow for political, economic, and military support increased markedly in 1970. The USSR, in an attempt to shore up Egyptian confidence in the Nasser regime by reducing the frequency and damage wrought by Israeli air raids, agreed to provide the UAR with [redacted]

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[redacted] arms, nearly all of which has been delivered. This was the largest Soviet annual aid commitment ever given a Third World country. The Soviet Union rapidly delivered advanced SA-3 SAM systems and additional SA-2 SAM equipment and jet aircraft. The UAR, with the help of Soviet advisors, undertook some \$90 million in construction to provide the launch sites to accommodate these systems. Along with the new SAM equipment came several thousand additional Soviet technicians to train UAR personnel in their use and some 7,000 Soviet military personnel to man the sites until UAR personnel could be trained

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to take over, the first such Soviet military commitment to a non-Communist country.

12. The continued heavy military aid deliveries have increased further the UAR's heavy financial indebtedness to the USSR. Military debt repayments, already rescheduled twice, have been postponed for another three years. Moscow's growing military involvement in the UAR, as well as the overhanging Soviet debt, have probably further reduced Cairo's already poor chances of obtaining credits from the West to ease the continuing shortage of foreign exchange. Apart from postponing repayments on military debt, the USSR is providing no net economic aid to the UAR, as repayments have caught up with aid deliveries. The UAR depends most heavily on subsidies from other Arab states to finance current levels of economic activity and domestic military costs. But the country depends more heavily on Soviet aid to support economic development.